

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant:	Didi Hirsch Psychiatric Service dba Didi Hirsch Community Mental Health Center (Didi Hirsch) 4670 So. Sepulveda Boulevard Culver City, California Los Angeles County	Amount Requested:	\$400,000
		Requested Loan Term:	15 years
		Date Requested:	February 27, 2003
		Resolution Number:	HII-140
Project Site:	1328 West Manchester Avenue, Los Angeles, California		
Facility Type:	Community Mental Health Center		
Use of Loan Proceeds: Loan proceeds will be used to purchase a currently-leased mental health facility located in the City of Los Angeles. Management has determined it would be more cost effective to purchase a permanent facility versus leasing and would result in annual savings of approximately \$12,000.			
Type of Issue:	HELP II Loan		
Prior HELP II Borrower:	No		
Payments Status:	N/A		
Financial Overview: Didi Hirsch is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results. The balance sheet shows strong liquidity, low debt and a significant growth in net assets.			
Sources of Revenue: (FYE 6-30-02)	<u>Amount</u>	<u>Percent</u>	
Government contracts	\$17,616,154	91%	
Contributions, grants and donations	1,243,120	7%	
Patient fees	290,067	1%	
Other revenues	36,722	0%	
Net assets released from restriction	<u>276,882</u>	<u>1%</u>	
Total Revenue	<u>\$19,462,945</u>	<u>100%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$400,000	Purchase real property	\$520,000
Equity contribution	140,000	Other development fees	12,000
		Financing cost	<u>8,000</u>
Total Sources	<u>\$540,000</u>	Total Uses	<u>\$540,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan to Didi Hirsch Psychiatric Service in an amount not to exceed \$400,000 for a term of 15 years, subject to a final appraised value on the subject property satisfactory to the Authority and the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

DIDI HIRSCH PSYCHIATRIC SERVICE (“Didi Hirsch”)

February 27, 2003

Resolution Number: HII-140

I. PURPOSE OF FINANCING: Didi Hirsch intends to purchase a currently leased mental health facility in the City of Los Angeles that it has occupied for twenty years. Currently, the lease is renewed annually and the tenant is responsible for all building related costs, such as taxes, insurance, maintenance and repair. The purchase of the leased facility will allow Didi Hirsch to obtain grants such as California Endowment to pay for major repairs and future remodeling of the building, which will expand services and retain staff. In addition, the acquisition will provide a permanent location, a parking lot, a major public transportation connection, and most important, the clients know where to go when they need mental health care. Management anticipates annual saving of \$12,000 in comparison to its current lease payments.

***Purchase real property*..... \$520,000**

Didi Hirsch has signed a contract to purchase Manchester Center, a 3,500 square foot building situated on two-thirds of an acre located at 1328 West Manchester Avenue in Los Angeles. The one-story building consists of clients’ waiting area, reception-support staff work area, kitchen, group room, interns’ work area, attic storage space, director’s office and ten offices for clinical services. The front of the building is landscaped, and sides and back are surfaced for parking spaces.

The purchase price of the property is \$520,000, and will be financed by the proposed HELP II loan of \$400,000 and Didi Hirsch’s internal funds of \$140,000. Didi Hirsch is currently in the process of having the property appraised.

***Other Development Fees*..... 12,000**

The development fees include feasibility studies, legal fees, surveys and appraisal.

***Financing Costs* 8,000**

1. Authority Closing Fee..... \$5,000

2. Title/Escrow/Other..... 3,000

***Total*..... \$540,000**

Financing Structure:

The HELP II loan for Didi Hirsch will be structured as follows:

- 15-year loan term.
- 180 equal monthly payments of approximately \$2,760 (yearly payments of \$33,150).
- Total interest payments of approximately \$97,200.
- Maximum loan to value ratio of 95%. Expected 77% loan to value ratio (based on “As Is “ value of \$520,000).
- First deed of trust on the property located at 1328 West Manchester Avenue, Los Angeles, CA.
- Corporate gross revenue pledge.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

Didi Hirsch Psychiatric Service
Statement of Activities
(Unrestricted)

	For five months ended November 30	For the year ended June 30		
	2002	2002	2001	2000
	(Unaudited)			
<u>REVENUE</u>				
Government contracts	\$ 7,943,940	\$ 17,616,154	\$ 15,136,973	\$ 13,756,353
Contributions, grants and donations	290,515	1,243,120	1,594,409	1,505,602
Patient fees	108,826	290,067	480,919	557,967
Other revenues	26,139	36,722	116,549	261,491
Net assets released from restriction	63,533	276,882	653,264	155,475
Total revenues	<u>8,432,953</u>	<u>19,462,945</u>	<u>17,982,114</u>	<u>16,236,888</u>
<u>EXPENSES</u>				
Salaries and wages	5,320,966	12,495,598	11,101,721	8,721,619
Payroll taxes and employee benefits	1,033,366	2,280,998	1,988,743	1,650,239
Operating expenses	687,745	2,273,297	2,128,795	3,662,157
Occupancy costs	881,018	1,630,075	1,389,747	1,187,087
Donated goods and services	-	434,634	549,081	468,565
Depreciation	98,336	262,899	220,633	177,483
Interest	31,765	78,706	73,095	52,626
Total expenses	<u>8,053,196</u>	<u>19,456,207</u>	<u>17,451,815</u>	<u>15,919,776</u>
Change in unrestricted net assets	379,757	6,738	530,299	317,112
Unrestricted net assets at beginning of year	4,329,718	4,322,980	3,792,681	3,475,569
Unrestricted net assets end of year	<u>\$ 4,709,475</u>	<u>\$ 4,329,718</u>	<u>\$ 4,322,980</u>	<u>\$ 3,792,681</u>

**Didi Hirsch Psychiatric Service
Statement of Financial Position**

	<u>As of November 30</u>	<u>As of June 30</u>		
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Assets</u>				
	(Unaudited)			
Cash	\$ 4,782,176	\$ 1,425,532	\$ 1,424,467	\$ 841,632
Accounts receivable	1,151,045	3,936,467	5,712,694	5,952,656
Other current assets	237,492	239,477	137,774	197,137
Property and equipment, net	2,875,526	2,955,162	3,013,629	2,503,890
Total Assets	\$ 9,046,239	\$ 8,556,638	\$ 10,288,564	\$9,495,315
<u>Liabilities</u>				
Accounts payable	\$ 1,703,070	\$ 216,207	\$ 1,999,139	\$2,654,444
Accrued liabilities	1,074,451	2,506,782	2,280,909	1,924,473
Other liabilities	-	-	142,848	154,190
Notes payable	1,146,951	1,178,106	1,254,064	565,151
Total Liabilities	3,924,472	3,901,095	5,676,960	5,298,258
<u>Net Assets</u>				
Unrestricted net assets	4,709,475	4,329,718	4,322,980	3,792,681
Temporarily restricted net assets	392,292	305,825	268,624	384,376
Permanently restricted net assets	20,000	20,000	20,000	20,000
Total Net Assets	5,121,767	4,655,543	4,611,604	4,197,057
Total Liabilities & Net Assets	\$ 9,046,239	\$ 8,556,638	\$ 10,288,564	\$9,495,315

Financial Ratios:

**Proforma (a)
6/30/02**

Debt Service Coverage (x)	2.11	5.00	2.27	8.15	6.90
Debt/Unrestricted Net Assets (x)	0.36	0.24	0.27	0.29	0.15
Margin (%)		4.50	0.03	2.95	1.92
Current Ratio (x)		2.19	2.01	1.62	1.47

(a) Recalculates June 2002 audited results to include the impact of this proposed financing.

Financial Discussion:

Didi Hirsch is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results.

Didi Hirsch provides a comprehensive range of mental health care services to the low income, medically underserved population in the Los Angeles County area. Its main sources of revenue are government contracts with the County of Los Angeles Department of Mental Health. This funding is a pass-through for the U.S. Department of Health and Human Services. The contributions, grants and donations are funded from corporations, various Foundations and the general public. Patient fees are mostly received from insurance companies and other revenue is mostly food stamps.

Total revenues have increased approximately 20% over our review period from fiscal 2000 to 2002, primarily due to the substantial increase in government contracts. However, the loss of the partial hospitalization program contract in late fiscal 2000 had a negative impact on revenues for fiscal 2001 and 2002. Management expects that revenues for fiscal 2003 will be relatively consistent with those of fiscal 2002.

Operating expenses increased approximately 22% over our review period. The increases were significant for fiscal 2001 and fiscal 2002 as salaries and related expenses increased by 27% and 13%, respectively. Apart from interest and depreciation expenses, the total operating expenses increased primarily due to the costs associated with occupancy. The cost of maintaining some facilities including the Manchester Center have doubled since fiscal 2000. Both interest and depreciation expense increases are due to the purchase of buildings, equipment and the related long-term financing in fiscal 2001.

Despite the overall increase in expenses, Didi Hirsch continues to post positive operating results through the current fiscal period. Positive revenue growth has provided strong operating margins ranging from 2% to 4% during the past three fiscal years. Management anticipates maintaining an operating margin of approximately 2% for fiscal 2003. Didi Hirsch has had positive growth in unrestricted net assets and anticipates a \$300,000 increase in unrestricted net assets for fiscal 2003.

The balance sheet shows strong liquidity, low debt and a significant growth in net assets.

Didi Hirsch improved its billing and collection procedures in fiscal 2001 and 2002, resulting in a substantial reduction of accounts receivable. In addition, with the loss of its partial hospitalization program contract from fiscal 2001, both the accounts receivable and accounts payable were reduced significantly in fiscal 2002. As a result of these procedures, Didi Hirsch accumulated \$4.8 million in cash at the end of November 2002. However, this surplus will eventually be reduced after accounting for deferred revenue of \$1.8 million and meeting payments of \$1.2 million for current liabilities. Didi Hirsch has maintained positive cash flows with adequate liquidity as demonstrated by a current ratio ranging from 1.47x to 2.01x for the review period. With continued positive operating results, net assets have grown 25% from fiscal 2000 to fiscal 2002. Didi Hirsch has low debt and a growing net asset balance, providing a proforma debt-to-unrestricted net assets ratio of 0.36x. With this

proposed loan, management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 2.11x.

III. UTILIZATION STATISTICS:

Number of Clients Served (a)

Type of Service	Six Months Ended	Fiscal Year Ended June 30		
	December 2002	2002	2001	2000
Mental Health Services				
Adult Mental Health	974	1,750	1,956	1,843
Children's Mental Health	668	1,694	1,366	1,107
Older Adult Mental Health	131	220	200	169
Crisis Intervention	68	143	256	191
Cal Works	621	1252	876	51
Suicide Prevention	6,498	13,974	12,898	10,900
Intake and Referral	3,703	7,852	12,000	6,509
Substance Abuse Services				
Outpatient	991	1,832	1,258	808
Residential	67	141	122	121
Prevention	5,168	11,598	7,228	7,974
Counseling Services				
Family	84	138	373	521
Suicide Survivors	71	160	95	131
Employment Services	42	74	61	50
Juvenile Diversion	17	45	284	375
Domestic Violence Prevention	0	192	480	587
Child Abuse Prevention and Treatment	161	337	257	264
Older Adult Day	15	24	46	24
Parenting Education	112	231	384	380
Family Reinforcement	0	0	100	438
Community Outreach and Referral	779	1,282	3,500	3,069
Total Clients	20,170	42,939	43,740	35,512

(a) Includes all facilities.

IV. ORGANIZATION:

Background:

Didi Hirsch was founded in 1942 and incorporated in 1944 as a corporation to provide community mental health care services in Los Angeles County to minorities, refugees, children and others for whom such services are generally limited or unavailable. In the past, Didi Hirsch had operated under different names, and today it provides behavioral healthcare services at twelve different locations in Los Angeles County.

Since its inception, Didi Hirsch has evolved in response to the needs of the complex community. Didi Hirsch merged with the Veteran's Psychiatric Clinic in 1953, opened a clinic in 1966, dedicated to serving under-served minorities in the Venice area. In 1972, it became a comprehensive community mental health center serving all ages. More recently, Didi Hirsch integrated Centinela Family and Child Guidance Clinic and Family Service of Los Angeles into its organization.

Didi Hirsch serves clients regardless of their ability to pay. Funding is primarily provided under contracts with various public agencies, including the County of Los Angeles, the State of California and the U.S. Department of Health and Human Services. Didi Hirsch also receives funds from the United Way, other charitable organizations, and private contributions.

Licenses:

Didi Hirsch is regulated as a Community Mental Health Center by the State Department of Mental Health and certified as a Medi-Cal provider by the Los Angeles County Department of Mental Health since 1965. The Medi-Cal provider certificate covers eleven mental health centers including the currently-leased facility of Manchester Center located at 1328 Manchester Avenue in the City of Los Angeles.

Competition:

Los Angeles County is divided into six service areas. The South Central Los Angeles service area is approximately 6.6 square miles. It is one of the poorest service areas in Los Angeles County, and is overwhelmed by a variety of social problems as indicated in the comparative statistics below:

<u>Need Criteria Indices</u>	<u>LA County Wide</u>	<u>South Central LA</u>
Population	9,343,055	331,946
Persons Below Poverty Level	22%	43%
Median Household Income	\$43,942	\$18,673
Unemployment Rate	7%	15%
Female Head of Household Families	20%	40%
Child Abuse/Foster Care Cases per 100 Children	4.2	7.4
CalWorks Receipts	8%	19%

Didi Hirsch's Manchester Center is located in South Central Los Angeles. Its primary market share is 10% in Child Outpatient and CalWorks programs. The other 25% in the primary market represents various small competition, which does not pose a real threat to the project. With the proposed project at this center, Didi Hirsch expects fiscal 2004 a market share of approximately 11%, with 550 clients.

Primary Market South Central Los Angeles	Clients	Market Share (%)	Distance Away
Didi Hirsch Psychiatric Service	504	10%	N/A
Los Angeles Child Guidance Clinic	1,513	30%	4.5 Mile
Kedren Community Mental Health Center	1,261	25%	6.0 Miles
Shields for Families Project	252	5%	6.0 Miles
Starview Community Service	252	5%	1.0 Miles
Other	1,261	25%	N/A

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/02 (a)	Estimated Amount Outstanding After Proposed Financing
Existing:			
Various Auto Loans 1 st Lien Motor Vehicles	\$103,258	\$29,657	\$29,657
GE Capital September 2000 1 st Lien Excel House & Jump St property.	1,244,000	1,148,449	1,148,449
Proposed:			
CHFFA HELP II Loan, 2003	400,000		400,000
TOTAL DEBT		\$1,178,106	\$1,578,106

(a) Includes current portion.

VI. SECTION 15438.5 OF THE ACT:

With the proposed HELP II Loan, Didi Hirsch will save approximately \$12,000 annually in comparison to its current lease. Didi Hirsch will use these savings to offset its costs of uncompensated care for clients unable to pay out of pocket. The savings will also allow Didi Hirsch to maintain or expand its existing level of services without raising rates.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan to Didi Hirsch Psychiatric Service in an amount not to exceed \$400,000 for a term of 15 years, subject to a final appraised value on the subject property satisfactory to the Authority and the standard HELP II loan provisions.

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